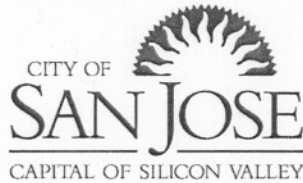


SUPPLEMENTAL



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Ed Shikada
James R. Helmer
Scott P. Johnson
Jim McBride

SUBJECT: SEE BELOW

DATE: 2-25-05

Approved

Date

2/25/05

**SUBJECT: REPORT ON RFP FOR A CONVERGED NETWORK FOR THE NEW
CITY HALL (NCH)**

REASON FOR SUPPLEMENTAL INFORMATION

To make a correction and a clarification regarding Nortel Network's cost proposal, as well as provide additional information requested by Council regarding the proposal evaluation team. The correction and clarification do not change staff's recommendation of Nortel as the preferred vendor.

BACKGROUND

On February 11, 2005, staff transmitted to the City Council its recommendation to select Nortel Networks as the preferred vendor for the Converged Network for the new City Hall. The memorandum was released early to allow sufficient time for the City/Gartner negotiations team to begin final negotiations with the proposed vendor, and to allow all proposers to review staff's decision. Through subsequent review of the cost components of the Nortel Networks proposal, we have determined that one price-related element requires correction and another requires clarification.

ANALYSIS

1. Base Solution Cost. The 2-11-05 memorandum listed Nortel Networks' base solution cost proposal as \$4,038,004; this was incorrect. The correct figure is \$4,371,139.

The figure listed in the 2-11-05 memorandum was incorrectly transferred from material presented by Nortel Networks during finalist interviews. The difference (\$333,135) represents

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the amount of estimated sales tax. We reviewed the amounts used in the evaluation process and have verified that the correct amount (\$4,371,139) was used in our analysis. Therefore, there is no change in scoring of the proposals that were reported in the original memo.

2. Early Termination Fee. The Nortel Networks cost proposal included an "early termination fee" for the managed services component of the contract. Although there was space in the proposal templates for such a fee, no other proposer included one. Nortel's proposal listed early termination fees of \$1,593,600 in the first year, \$796,800 in the second year, and \$398,400 in the third year.

When asked about this provision during the Tier III evaluation process, Nortel staff explained its concern that, under the exemplar agreement, the City could terminate the contract for convenience with thirty days notice at any time during the first year. Nortel wanted a way to protect itself against a termination for convenience (as opposed to for cause, which would not trigger an early termination fee).

In response, staff explained that it was the City's intention to contract for the full first year of managed services, and that any managed services beyond the first year were not currently funded by the City and totally at the City's option, so that any pricing information provided beyond the first year was for comparative purposes only. After gaining an understanding of the City's position and intent, Nortel indicated a willingness to review the issue. Based on the written proposal and this response, the evaluation team concluded that the early termination fee should not be considered a part of Nortel's cost for one year of managed services.

In reviewing this approach by the evaluation team, we believe that the issue should have been better clarified. The inclusion of the early termination fee in the proposal represented a potential unanticipated additional contract cost, and it was unclear how and when the fee might be applied.

Given this lack of clarity, we have revisited the cost analysis to test the potential impact of having included the early termination fee at its highest level (\$1,593,600 for a first year termination). This change would have the effect of decreasing Nortel's score for cost of managed services, which was one element of the cost subcategory.

If the cost estimate for Nortel Networks' proposal had been placed at this highest level, Nortel's total score after the Tier III evaluation would have been reduced by 33.75 points, from 638.75 to 605.00. This is still more than 5% higher than Siemens' score of 572.50.

Finally, it should be noted that during negotiations following the release of the 2-11-05 memo, City staff and Nortel Networks have reached tentative agreement that the early termination fee will not be included in the recommended contract.

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COST COMPARISON

The 2-11-05 memo included a cost comparison of the proposals from Nortel Networks and Siemens. Based on the revisions described above, Nortel's base solution increases to \$4,371,139, and the total cost increases to \$5,964,739, which is still more than 7% lower than the total cost for Siemens (\$6,425,874). The highest early termination fee in Nortel's proposal (\$1,593,600) would raise Nortel's total cost to \$7,558,339, but as mentioned above, that fee would only have applied if the City were to terminate the contract during or at the end of the first year for convenience.

While these revised figures are important for comparing the two cost proposals, they do not change the recommendation of Nortel as the preferred vendor (as explained above), nor do they change the original recommendation to negotiate an agreement with Nortel Networks, Inc., in an amount not to exceed \$5,631,600 plus a 10% contingency (\$563,160). This amount represents the total cost mentioned above (\$5,964,739) minus the sales tax amount discussed on page 1 (\$333,135, see below for explanation), rounded to an even number.

The total cost recommendation does not change as a result of either of the issues described above for the following reasons:

- Sales Tax - Nortel Networks will be shipping the needed equipment from outside the State of California. This will allow the City to treat the sales taxes as a self accrued use tax. The City will pay the tax directly to the State, allowing us to receive the full 1% local sales tax. Because the payment will be made to the State, it is included above in the total cost of the proposal, but is not included in the amount for the Nortel agreement.
- Early Termination Fee - As mentioned above, City staff and Nortel Networks have reached tentative agreement that this fee will not be included in the recommended contract.

3. Proposal Evaluation Team. At its January 25 meeting, the City Council directed that certain future award recommendations identify the individuals involved in evaluating proposals. This section provides that information.

For the Converged Network RFP, three teams consisting of internal and external subject matter experts were involved in proposal evaluations. This included a "Core Team" with five members, a "Technical Team" with three members, and a "Finance Evaluation Team" with four members.

Specific roles were established for each team prior to the start of the evaluation process.

- The **Core Team** reviewed all proposals, and incorporated input from the Technical Team, Finance Evaluation Team, and end user focus groups, to score the evaluation criteria.
- The **Technical Team** was responsible for evaluating and scoring the technical design and architecture of proposed solutions (15% of the total score, as stated in the RFP).
- The **Finance Evaluation Team** did not score proposals, but reviewed the detailed costs for each proposal with particular attention to key assumptions and completeness, identified positive and negative aspects of each cost proposal, and researched the financial stability of the

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finalists. This analysis was then provided to the Core Team, and was used in scoring the cost elements of the proposals (20% of the total score).

The table below lists the evaluators and their areas of expertise.

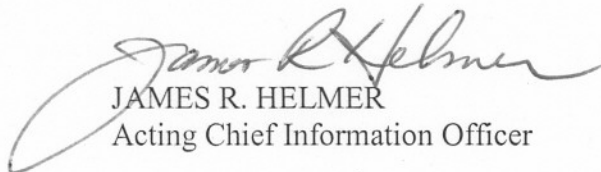
Core Team	
Tom Bohn	City of San José, Deputy Director, Fire Dept. Bureau of Support Services, RFP Program Manager.
Marsha Lynch	City of San José, Supervising Applications Analyst, ITD
Gary Zouzoulas	City of San José, Acting Assistant Director, ITD
Clancy Priest	City of Hayward, Deputy City Manager, IT
John Hendry	City of Oakland, Telecomm Systems Engineer, IT Division
Technical Team	
Amanda Le	City of San José, Information Systems Analyst, Airport
Randy Torrecillas	City of San José, Program Manager, Airport
Mark Gilbert	Gartner, Director
Financial Evaluation Team	
Larry Lisenbee	City of San José, Budget Director
Patrick Sawicki	City of San José, Principal Accountant
Jo Zientek	City of San José, Administrative Officer, ITD
Mark Gilbert	Gartner, Director

COORDINATION

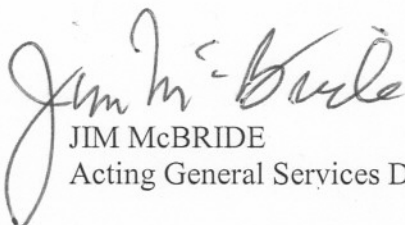
This supplemental report was coordinated with the City Attorney's Office, the City Auditor's Office, the Core Team evaluators, and the Converged Network external Validation Committee.



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